

At attractive valuation

We maintain BUY on Oil India post an in-line 1QFY20. Although we do agree that there are concerns over lack of production growth for OIL, we think that the current valuations (2.3x FY21 EV/EBITDA and 4.7x FY21 PER) indicate strong pessimism.

HIGHLIGHTS OF THE QUARTER

- Oil reported net revenue of Rs 33.73bn, up 9.3% QoQ owing to 4.6% increased in crude oil sales volumes and 6.0% jumped in crude oil realisation. EBITDA increased 25% QoQ to Rs 13.53bn while APAT increased 30.3% to Rs 6.25 bn.
- Oil price realisation was USD 66.3/bbl (-7.9/+7.4% YoY/QoQ). Gas price realisation was USD 3.6/mmbtu, +21.6/10.6% YoY/QoQ. Oil sales volume was up 0.2/4.6% YoY/QoQ to 0.81mmt. Gas sales volume was 0.61bcm, +2.7/-1.1% YoY/QoQ. There was no subsidy burden in the quarter.
- Crude oil and natural gas production volumes will increase at 3.0% and 2.0% CAGR over FY19-22E. The

surge in oil supply from US coupled with fall in global oil demand owing to trade war between US-China will result in subdued oil prices in the near term. Thus, we expect oil realisation to fall from USD 66.33/bbl in 1Q to USD 61/bbl in FY21.

- Key monitorable: Crude oil price movement.

STANCE

Upstream companies were out of flavor despite realising market price for crude oil, mainly on account of the subsidy sharing with OMCs. We expect oil prices to remain muted owing to the robust supply from US Shale. This is despite production cuts from OPEC and non-OPEC countries. Thus, there is no concern over the subsidy sharing. OIL generates OCF yield of almost 30% and divided yield of ~8.5% over FY20/21E. The current valuations are contextually lower at 2.3x FY21E EV/EBITDA and 4.8x FY21 PER. Our TP is Rs 225/sh (6x Jun-21E standalone + Rs 84 from investments). Maintain BUY.

Financial Summary (Standalone)

(Rs bn)	1QFY20	1QFY19	YoY %	4QFY19	QoQ %	FY19P	FY20E	FY21E	FY22E
Revenues	33.73	33.90	(0.5)	30.87	9.3	137.35	126.88	130.19	133.61
EBITDA	13.53	14.08	(3.9)	10.79	25.4	54.84	47.93	49.23	50.60
APAT	6.25	7.03	(11.2)	4.79	30.3	36.17	33.56	34.51	35.53
AEPS (Rs)	5.8	6.5	(11.2)	4.4	30.3	33.4	30.9	31.8	32.8
P/E (x)						4.5	4.8	4.7	4.6
EV/EBITDA (x)						3.1	3.1	2.3	1.5
RoE (%)						13.0	11.4	10.5	9.8

Source: Company, HDFC sec Inst Research

INDUSTRY	OIL & GAS
CMP (as on 13 Aug 19)	Rs 150
Target Price	Rs 225

Nifty	10,926
Sensex	36,958

KEY STOCK DATA

Bloomberg	OINL IN
No. of Shares (mn)	1,084
MCap (Rs bn) / (\$ mn)	161/2,256
6m avg traded value (Rs mn)	309

STOCK PERFORMANCE (%)

52 Week high / low	Rs 227/147		
	3M	6M	12M
Absolute (%)	(15.3)	(14.4)	(30.2)
Relative (%)	(14.0)	(16.6)	(27.8)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	61.61	61.61
FIs & Local MFs	17.41	16.43
FPIs	4.83	5.83
Public & Others	16.15	16.13
Pledged Shares	0.00	0.00

Source : BSE

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Revenue declined 0.5% YoY consequential to 4.4% fall in net crude oil realisation to Rs 4,613/bbl, offset by 21.6/2.7% increase in NG realisation/sales volumes

Sequentially, crude oil realisation/volumes were up 6.0/4.6% resulting in a 9.3% jump in revenues

Quarterly Financials: Snapshot (Standalone)

Rs bn	1QFY20	1QFY19	YoY %	4QFY19	QoQ %
Net Sales	33.73	33.90	(0.5)	30.87	9.3
Material Expenses	0.74	0.06	1,130.9	0.61	21.6
Employee Expenses	4.54	3.43	32.5	4.22	7.8
Other Operating Expenses	14.92	16.33	(8.7)	15.25	(2.2)
EBITDA	13.53	14.08	(3.9)	10.79	25.4
Depreciation	3.99	3.37	18.4	4.24	(5.8)
EBIT	9.54	10.71	(11.0)	6.55	45.6
Other Income including EO	1.23	1.27	(3.2)	6.08	(120.2)
Interest Cost	1.23	1.12	9.8	1.20	3.1
PBT	9.53	10.86	(12.2)	(0.72)	NA
EO (Loss) / Profit (Net Of Tax)	-	-	NA	6.88	NA
Tax	3.28	3.82	(14.1)	1.36	140.8
RPAT	6.25	7.03	(11.2)	(2.09)	(399.6)
APAT	6.25	7.03	(11.2)	4.79	30.3
AEPS (Rs/sh)	5.8	6.5	(11.2)	4.4	30.3

Source: Company, HDFC sec Inst Research

Margin Analysis (Standalone)

	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Employee Expenses as % of Net Sales	13.5	10.1	336	13.7	(19)
Other Expenses as % of Net Sales	44.2	48.2	(395)	49.4	(518)
EBITDA Margin (%)	40.1	41.5	(143)	35.0	515
APAT Margin (%)	18.5	20.7	(222)	15.5	299
Tax Rate (%)	34.4	35.2	(78)	NA	NA

Source: Company, HDFC sec Inst Research

Physical Performance (Standalone)

	1QFY20	1QFY19	YoY %	4QFY19	QoQ %
Production Volume					
Oil (mnT)	0.813	0.81	0.2	0.78	4.6
Gas (BCM)	0.712	0.70	2.3	0.70	1.3
Sales Volume					
Oil (mnT)	0.813	0.811	0.2	0.777	4.6
Gas (BCM)	0.613	0.597	2.7	0.620	(1.1)
Realisation					
Crude - Post subsidy (USD/bbl)	66.3	72.0	(7.9)	61.8	7.4
Crude - Post subsidy (Rs/bbl)	4,613	4,823	(4.4)	4,353	6.0
NG realisation (USD/mmbtu)	3.6	2.9	21.6	3.2	10.6

Source: Company, HDFC sec Inst Research

There was no subsidy burden for 1QFY20

A 24.5% decline in EBIT from crude oil segment is attributable to a 4.4% fall in oil price realisation to Rs 4,613/bbl

Segmental Performance (Standalone)

	1QFY20	1QFY19	YoY %	4QFY19	QoQ %
Segmental Revenues (Rs bn)					
Crude Oil	26.0	27.7	(5.9)	23.9	8.9
Natural Gas	4.9	3.6	33.0	4.5	8.1
LPG	0.4	0.3	37.9	0.3	19.6
Pipeline	0.9	0.9	1.3	0.7	21.6
Others	0.6	0.6	(0.9)	0.5	30.1
Segmental EBIT (Rs bn)					
Crude Oil	8.6	11.4	(24.5)	8.6	(0.4)
Natural Gas	2.2	1.2	81.3	1.57	37.1
LPG	0.2	0.1	137.8	0.1	89.0
Pipeline	(0.2)	(0.3)	NA	(0.5)	NA
Others	0.2	0.1	99.9	0.1	243.3
EBIT Margins (%)					
	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Crude Oil	32.9	41.0	(809)	36.0	(409)
Natural Gas	44.5	32.6	1,183	35.1	839
LPG	48.9	28.3	2,053	30.9	1,694
Pipeline	(27.2)	(29.0)	NA	(68.8)	NA
Others	37.0	18.3	1,865	14.0	2,195

Source: Company, HDFC sec Inst Research

Key variables for OIL:

- 1) Net oil realisations
- 2) Exchange rate

We decrease our assumptions of the crude oil realisation for FY20E and FY21E by 4.7% to Rs 61/bbl resulting in 3.8% decline in Net Revenues in FY20/21E

FY20E EPS Sensitivity With Crude Prices, INR-USD

Oil price (USD/bbl)	INR-USD			
		68	70	72
	60	25.6	27.1	28.7
	65.0	29.3	30.9	32.6
	70	33.0	34.8	36.5

Base case assumptions 1) Brent price USD 60/ bbl, (2) INR-USD at 70 in FY20E.

Sensitivity Of Our Target Price With Crude Prices, INR-USD

Oil price (USD/bbl)	INR-USD			
		68	70	72
	60	200	208	215
	65.0	218	225	233
	70	235	243	251

Base case assumptions 1) Brent price USD 60/ bbl, (2) INR-USD at 70 in FY20E. At base case, our target price for OIL is Rs 225/sh (6x Jun21E core EPS and Rs 84/sh from investments).

Change In Estimates

(Rs bn)	FY20E New	FY20E New	Ch%	FY21E New	FY21E New	Ch%
Net Revenues	131.87	126.88	(3.8)	135.32	130.19	(3.8)
EBIDTA	49.77	47.93	(3.7)	50.32	49.23	(2.2)
APAT	34.91	33.56	(3.9)	35.31	34.51	(2.3)
Adjusted EPS (Rs)	32.19	30.95	(3.9)	32.56	31.83	(2.3)

Source: Company, HDFC sec Inst Research

Assumptions

	FY20E	FY21E	FY22E
Sales Volumes			
Oil (mmt)	3.34	3.44	3.54
Gas (bcm)	2.28	2.32	2.37
Macros			
Net Oil Realisation (US\$/bbl)	61.0	61.0	61.0
Gas Price (US\$/mmbtu)	3.5	3.5	3.5
INR-US\$	70.0	70.0	70.0

Source: Company, HDFC sec Inst Research

Valuation (Based On Jun-21E)

Business	(Rs/sh)	Value (Rs bn)	Multiple	Value (Rs/sh)	Valuation basis
Standalone EPS	32.1				
Less: EPS From Other Income Valued Separately	8.4				
Net EPS (Rs/sh)	23.6		6.0	141	P/E multiple
Investments					
Investments In IOC		44.53		41	30% discount to CMP
Other Investments At BV		46.17		43	0.3x Book value
Investments Equity Value				84	
Value Per Share				225	

Source: HDFC sec Inst Research

Peer Set Comparison

	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	EPS (Rs/sh)				P/E (x)				P/BV (x)				ROE (%)			
					FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19P	FY20E	FY21E	FY18	FY19P	FY20E	FY21E
Reliance Industries	8,075.89	1,274	NEU	1,302	53.0	55.5	60.9	62.6	24.0	23.0	20.9	20.4	2.6	2.0	1.8	1.7	11.1	9.8	9.2	8.7
ONGC	1,610.28	128	BUY	189	15.9	21.2	20.6	21.1	8.1	6.0	6.2	6.1	0.8	0.8	0.7	0.7	10.5	13.5	12.3	11.8
Indian Oil Corp	1,156.95	126	BUY	190	22.8	18.4	18.2	21.1	5.5	6.8	6.9	6.0	1.1	1.1	1.0	0.9	19.9	15.4	14.7	15.8
BPCL	682.51	347	BUY	434	41.6	36.3	33.3	33.7	8.3	9.6	10.4	10.3	2.0	1.9	1.7	1.6	25.6	20.1	17.0	15.7
GAIL	568.28	126	BUY	201	10.2	13.8	13.0	14.3	12.4	9.1	9.7	8.8	1.4	1.3	1.2	1.1	11.7	14.8	12.7	12.9
HPCL	367.33	241	BUY	381	41.7	39.9	32.3	34.1	5.8	6.0	7.5	7.1	1.5	1.3	1.2	1.1	28.7	23.3	16.5	15.7
Petronet LNG	360.00	240	BUY	354	13.9	14.4	15.8	20.5	17.3	16.7	15.2	11.7	3.7	3.6	3.4	3.2	23.3	21.8	23.1	28.2
Indraprastha Gas	216.30	309	BUY	384	9.6	11.2	13.1	14.1	32.2	27.5	23.6	21.9	6.2	5.2	4.6	4.0	20.9	20.6	20.7	19.6
Oil India	160.71	150	BUY	225	24.6	33.4	32.2	32.6	6.1	4.5	4.7	4.6	0.6	0.6	0.5	0.5	9.4	13.0	11.8	10.7
Gujarat Gas	125.98	183	BUY	246	4.2	6.1	11.1	11.7	43.3	29.8	16.5	15.6	6.7	5.8	4.4	3.6	16.5	20.9	30.4	25.3
GSPL	122.39	217	BUY	247	11.9	14.1	16.1	17.0	18.3	15.4	13.5	12.7	2.4	2.1	1.9	1.7	14.0	14.7	14.9	14.2
Mahanagar Gas	77.64	786	BUY	1,133	48.4	55.3	58.7	59.2	16.2	14.2	13.4	13.3	3.7	3.2	2.8	2.5	24.3	24.3	22.6	20.1

Source: Company, HDFC sec Inst Research | *Fair value

Standalone Income Statement

Rs bn	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	106.56	137.35	126.88	130.19	133.61
Growth (%)	12.1	28.9	(7.6)	2.6	2.6
Material cost	0.49	1.82	1.84	1.86	1.88
Statutory Levies	29.29	38.38	35.34	36.38	37.45
Employee Cost	16.93	15.77	16.24	16.73	17.23
Other Expenses	20.74	26.55	25.53	25.99	26.47
EBIDTA	39.11	54.84	47.93	49.23	50.60
EBIDTA Margin %	36.7	39.9	37.8	37.8	37.9
EBIDTA Growth %	12.4	8.8	(5.4)	0.1	0.1
Depreciation	12.70	14.96	15.26	15.57	15.88
EBIT	26.41	39.87	32.67	33.66	34.72
Other Income (Incl. EO Items)	14.84	14.35	14.68	15.04	15.42
Interest	4.16	4.79	4.84	4.89	4.94
PBT	37.10	49.43	42.51	43.81	45.20
Tax	10.42	13.26	8.95	9.29	9.67
EO (Loss) / Profit (Net Of Tax)	-	10.27	-	-	-
RPAT	26.68	25.90	33.56	34.51	35.53
APAT	26.68	36.17	33.56	34.51	35.53
APAT Growth %	(1.2)	35.6	(7.2)	2.8	2.9
Adjusted EPS (Rs)	24.6	33.4	30.9	31.8	32.8
EPS Growth (%)	(1.2)	35.6	(7.2)	2.8	2.9

Source: Company, HDFC sec Inst Research | *No. of shares have been adjusted for buyback

Standalone Balance Sheet

Rs bn	FY18	FY19P	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital	7.57	10.84	10.84	10.84	10.84
Reserves And Surplus	271.53	266.61	300.17	334.68	370.21
TOTAL SHAREHOLDERS FUNDS	279.09	277.45	311.01	345.53	381.06
Long-term Debt	73.66	72.67	72.67	72.67	72.67
Short-term Debt	-	-	-	-	-
Total Debt	73.66	72.67	72.67	72.67	72.67
Deferred Taxes	34.39	34.13	34.13	34.13	34.13
Long Term Provisions, Others	9.44	9.07	9.07	9.07	9.07
TOTAL SOURCES OF FUNDS	396.58	393.32	426.88	461.39	496.92
APPLICATION OF FUNDS					
Net Block	102.72	100.89	103.78	104.82	105.12
CWIP	26.76	33.06	33.06	33.06	33.06
Investments	221.80	217.50	217.50	217.50	217.50
LT Loans & Advances and Other	7.90	9.47	9.93	10.41	10.91
NON - CURRENT ASSETS	359.18	360.92	364.27	365.79	366.59
Inventories	10.78	12.20	11.21	11.50	11.81
Debtors	14.08	13.14	12.07	12.38	12.71
Cash & Equivalents	36.98	63.89	88.84	122.47	157.86
Other Current Assets	19.32	24.51	25.21	25.92	26.66
TOTAL CURRENT ASSETS	81.16	113.73	137.32	172.28	209.04
Creditors	5.51	6.39	5.87	6.02	6.18
Other Current Liabilities & Provns	38.25	74.95	68.84	70.65	72.53
TOTAL CURRENT LIABILITIES	43.76	81.33	74.71	76.67	78.71
NET CURRENT ASSETS	37.40	32.40	62.61	95.61	130.33
TOTAL APPLICATION OF FUNDS	396.58	393.32	426.88	461.39	496.92

Source: Company, HDFC sec Inst Research

Standalone Cash Flow

(Rs bn)	FY18	FY19P	FY20E	FY21E	FY22E
Reported PBT	37.10	49.43	42.51	43.81	45.20
Non-operating & EO Items	-	(10.27)	-	-	-
Interest Expenses	(10.68)	(9.56)	(9.84)	(10.15)	(10.48)
Depreciation	12.70	14.96	15.26	15.57	15.88
Working Capital Change	7.36	30.22	(5.70)	0.17	0.18
Tax Paid	(6.82)	(13.52)	(8.95)	(9.29)	(9.67)
OPERATING CASH FLOW (a)	39.65	61.26	33.29	40.11	41.11
Capex	(21.94)	(19.44)	(18.15)	(16.61)	(16.18)
Free Cash Flow (FCF)	17.72	41.83	15.14	23.50	24.94
Investments	(8.58)	7.57	(0.02)	(0.02)	(0.02)
Non-operating Income	14.84	14.35	14.68	15.04	15.42
Others	-	-	-	-	-
INVESTING CASH FLOW (b)	(15.67)	2.48	(3.49)	(1.59)	(0.78)
Debt Issuance/(Repaid)	(15.82)	(0.99)	-	-	-
Interest Expenses	(4.16)	(4.79)	(4.84)	(4.89)	(4.94)
FCFE	(2.26)	36.05	10.30	18.61	20.00
Share Capital Issuance	(0.45)	3.28	-	-	-
Dividend	(13.44)	(12.73)	(16.16)	(16.62)	(17.10)
Others	(24.61)	(18.09)	16.16	16.62	17.10
FINANCING CASH FLOW (c)	(58.48)	(33.32)	(4.84)	(4.89)	(4.94)
NET CASH FLOW (a+b+c)	(34.50)	30.43	24.96	33.63	35.39
EO Items, Others					
Closing Cash & Equivalents	30.93	61.36	86.32	119.95	155.34

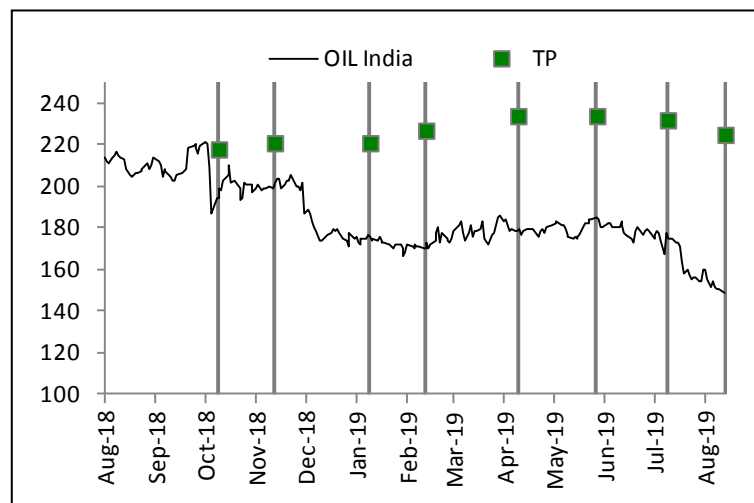
Source: Company, HDFC sec Inst Research

Standalone Key Ratios

	FY18	FY19P	FY20E	FY21E	FY22E
PROFITABILITY %					
EBITDA margin	36.7	39.9	37.8	37.8	37.9
EBIT margin	24.8	29.0	25.7	25.9	26.0
APAT margin	25.0	26.3	26.5	26.5	26.6
RoE	9.4	13.0	11.4	10.5	9.8
RoIC (or Core RoCE)	21.7	31.8	32.2	31.7	32.4
RoCE	10.1	13.7	11.5	11.0	10.5
EFFICIENCY					
Tax rate %	28.1	26.8	21.0	21.2	21.4
Fixed Asset Turnover (x)	0.2	0.3	0.3	0.3	0.2
Inventory (days)	37	32	32	32	32
Debtor (days)	48	35	35	35	35
Other Current Assets (days)	66	65	73	73	73
Payables (days)	30	28	27	27	27
Other Current Liab (days)	131	199	198	198	198
Cash conversion cycle (days)	(10)	(95)	(86)	(86)	(85)
Debt/EBITDA (x)	1.9	1.3	1.5	1.5	1.4
Net D/E	0.1	0.0	(0.1)	(0.1)	(0.2)
Interest coverage	9.9	11.3	9.8	10.0	10.1
PER SHARE DATA (Rs)					
EPS	24.6	33.4	30.9	31.8	32.8
CEPS	36.3	47.2	45.0	46.2	47.4
Book Value	257.4	255.9	286.8	318.6	351.4
DPS	10.3	9.8	12.4	12.7	13.1
VALUATION					
P/E (x)	6.1	4.5	4.8	4.7	4.6
P/BV (x)	0.6	0.6	0.5	0.5	0.4
EV/EBITDA (x)	5.1	3.1	3.1	2.3	1.5
EV/Revenues (x)	1.9	1.2	1.2	0.9	0.6
OCF/EV (%)	19.9	35.7	22.7	35.5	53.1
FCF/EV (%)	8.9	24.4	10.3	20.8	32.2
FCFE/MCap (%)	(1.4)	22.2	6.3	11.4	12.3
Dividend yield (%)	6.9	6.5	8.3	8.5	8.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Oct-18	194	BUY	218
13-Nov-18	199	BUY	221
9-Jan-19	176	BUY	221
13-Feb-19	170	BUY	227
9-Apr-19	179	BUY	234
28-May-19	185	BUY	234
9-Jul-19	177	BUY	232
13-Aug-19	150	BUY	225

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
 NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
 SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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